



# **Final Action Report**

## **A Summary of the 2008 Budget Act**

**(Chapters 268 and 269, Statutes of 2008)**

Including:

- *Overview of the General Fund Condition*
- *Trailer Bill List*
- *Budget Detail by Subcommittee*
- *Compendium of Governor's Vetoes*

**Senator Denise Moreno Ducheny, Chair**  
Senate Committee on Budget and Fiscal Review

October 3, 2008

# FINAL ACTIONS

October 3, 2008

Assembly Bill 1781 (Chapter 268)  
Assembly Bill 88 (Chapter 269)  
2008-09 Budget Bill

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October 3, 2008

The Senate Budget and Fiscal Review Committee has completed its Final Action Report which is a detailed summary of the 2008-09 budget actions taken by the Budget Conference Committee along with the Governor's vetoes. This report is available on the Senate Budget and Fiscal Review website:

Please follow the links:

- 1 - [www.sen.ca.gov](http://www.sen.ca.gov)
- 2 - Committees
- 3 - Standing
- 4 - Budget and Fiscal Review
- 5 - Information
- 6 - Final Action Report 2008

We hope you will find this information useful. Please feel free to contact the staff of the Senate Budget and Fiscal Review Committee should you have any questions.

Sincerely,

DENISE MORENO DUCHENY  
Chair

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## **Governor's Vetoes and Signing Messages**

## INTRODUCTION

On September 15, the Legislature passed AB 1781, the 2008 Budget Act (Chapter 268, Statutes of 2008) and its companion measure, AB 88 (Chapter 269, Statutes of 2008), that modifies various items to the main Budget. In enacting these bills, the Legislature met its constitutional obligation to pass a balanced budget.

Enclosed is the Senate Final Action Report. The report provides a detailed summary of the 2008 Budget Act, which reflects actions taken by the Senate Budget and Fiscal Review Committee (via the subcommittee process), the Budget Conference Committee, and final negotiations between leadership of the Legislature and the Administration, along with gubernatorial vetoes (exercised under Article IV, Section 10(e) of the State Constitution).

In total, the budget is based on \$106 billion in available General Fund resources and contains \$103.4 billion in expenditures. The final General Fund reserve is approximately \$1.7 billion (including GF vetoes). In terms of all funds (General Fund, special funds, and select bond funds), the Budget is approximately \$144.5 billion.

The Budget reflects funding prioritization that: (1) protects the most vulnerable populations in the state – sustaining the safety net for the elderly, blind, and disabled; (2) invests in prevention programs with the view of reducing future costs; (3) makes solid commitments to programs serving children and schools; (4) makes appropriate use of available bonds; and (5) rejects unachievable and unacceptable budget year solutions of \$7 billion – such as the administration’s use of lottery securitization revenues as a budget-year solution and unacceptable reductions in education and health and human services.

The Budget, in order to balance, represents a combination of things – program reductions, suspension of increases, and elimination of tax loopholes and revenue accelerations in order to provide sufficient resources to fund existing services (not new services).

The Budget reflects difficult decisions in order to craft the final solution, including not funding various cost-of-living adjustments (COLAs) for the State Supplemental Payments (SSP), CalWORKs programs and K-14 education categorical programs, and limiting the level of COLA (less than 1%) provided for K-12 education revenue

limits and community college apportionments. Unfortunately, the Budget could not backfill for student fee increases at UC and CSU; but did restore Cal Grant financial aid funding and redirects transit funds of about \$1.7 billion in order to provide an equivalent amount of General Fund relief. Finally, the Budget includes reforms that must be ratified by the voters at a statewide election.

This report builds on the Major Action Report (issued June 9, 2008) which detailed the Senate version of the proposed 2008-09 budget. Final actions are recorded by department or agency; subdivided by budget subcommittee. The table of contents will direct you to departments or agencies of interest.

A list of budget implementation trailer bills enacted by the Legislature is also included. We hope you find this information useful. Please feel free to contact the staff of the Senate Budget and Fiscal Review Committee, at 651-4103, with any questions.

## **HIGHLIGHTS BY SUBJECT MATTER**

Some of the highlights of the budget as passed by the Legislature include, but are not limited to, the following (by subject matter area):

### **K-12 EDUCATION**

- Provides a Proposition 98 (K-14 education) funding level of \$58.1 billion. This level of funding is \$300 million above the Governor's August revise and is \$1.3 billion higher than the May Revise. This level of funding fully funds the Proposition 98 minimum guarantee.
- Provides a modest cost-of-living adjustment (COLA) for K-14 revenue limits and community college apportionments – and does not create any new programs.
- Calculates a deficit factor for school districts and county offices of education to reflect the changes to the available level of statutory cost-of-living adjustments in 2008-09, so that in 2009-10 these factors are restored to revenue limit calculations, as if revenue limit losses had not occurred.
- Denies the Governor's budget balancing reductions of more than \$900 million, which decreased funding to nearly all K-14 programs, except K-12 revenue limits and special education.

- Defers a statutory appropriation of \$150 million in 2008-09 for purposes of providing payment of prior year Proposition 98 “settle-up”.
- Captures \$121 million in savings for various K-12 programs, which reflect workload and other technical adjustments.
- Continues the deferral of annual mandate payments for K-12 education in 2008-09, estimated to cost \$180 million annually.
- Appropriates \$12.5 million of Special Fund dollars to expand high school Partnership Academies to focus on “green technologies”.
- Provides statutory authority to allocate \$112.7 million in federal funds by establishing a one-year, non-renewable grant for approximately 150 K-12 local education agencies facing corrective action under the federal No Child Left Behind Act.
- Eliminates the STAR norm-referenced test currently administered to students in grades 3 and 7 for a savings of \$2.5 million.

## **CHILD DEVELOPMENT**

- Provides full funding of Stage 2 and Stage 3 CalWORKs child care.
- Restores Governor’s proposed across-the-board reductions to various child care programs.
- Approves Governor’s proposal to freeze state median income (SMI), the income level under which families are eligible to receive subsidized child care services.
- Adjusts child care provider reimbursement rates, pursuant to the new Regional Market Rate survey, effective March 1, 2009.
- Adopts trailer bill language that basically would treat the After School Education and Safety Program (Proposition 49) similar to other categorical programs, subject to annual Legislative appropriations. This would be subject to voter approval.

## HUMAN SERVICES

- Suspends the 2008 CalWORKs COLA for a savings of \$121.5 million.
- Suspends the October 2008 and June 2009 State Supplemental Program (SSP) COLAs for \$222 million in GF savings.
- Rejects the administration's proposal to impose graduated full-family sanctions, restrict safety-net grants, and elimination of grants for children of CalWORKs-eligible parents.
- Adopts the Work Incentive Nutritional Supplement (WINS) Program to provide a single \$40 per month additional food assistance benefit for eligible households and provides \$2 million to begin the automation process for program implementation. Adoption is contingent upon establishment of a pre-assistance employment readiness system (PAERS) program. *[The Governor vetoed this funding.]*
- Rejects reductions to prevention programs that provide future cost savings: (a) \$25 million reduction to the Substance Abuse and Crime Prevention Act (\$20 million) and the Substance Abuse Offender Treatment Program (\$5 million); (b) \$3.1 million reduction to drug court programs (the Comprehensive Drug Court Implementation, Drug Court Partnership, and Dependency Drug Court); and (c) \$3.1 million reduction to non-drug Medi-Cal Regular (\$733,000) and Non-Drug Medi-Cal Perinatal (\$2.3 million) programs. *[The Governor vetoed varying amounts from these programs.]*
- Adopts a \$1 million General Fund reduction to the California Methamphetamine Initiative (CMI). *[The Governor vetoed an additional \$8 million from this program.]*
- Rejects the administration's proposal to withhold the January 2009 federal Supplemental Security Income (SSI) COLA.
- Rejects the administration's proposal to eliminate the Cash Assistance Program for Immigrants (CAPI) which provides cash benefits to aged, blind, and disabled legal non-citizens who do not qualify for SSI/SSP as a result of their immigration status.



- Rejects proposals to limit the state's participation in the cost of IHSS provider wages and benefits to the minimum wage (\$8 per hour) plus \$0.60 per hour for benefits, to change the criteria for IHSS recipients to qualify for domestic and related services based on their functional index score, and to eliminate the IHSS share of cost buy-out for those recipients with a functional index score below four.

## **HIGHER EDUCATION**

- Partially restores General Fund of \$98.6 million to UC and \$97.6 million to CSU to hold funding at the levels provided in 2007-08.
- Fails to provide additional General Fund for enrollment growth or COLA to either the UC or CSU. Necessitates student fee increases of approximately 10 percent at both UC and CSU.
- Adopts budget bill language to reinstate academic preparation programs and research "earmarks" for legislative priorities at UC and CSU.
- Provides approximately \$428.4 million in lease-revenue bonds for 11 capital outlay projects for UC and CSU consistent with an economic stimulus approach.
- Restores the Governor's across-the-board reductions at community colleges, and holds student fees constant at \$20 per unit.
- Provides two percent enrollment growth for community colleges.
- Restores \$57 million for competitive Cal Grant awards, the state's primary financial aid for older and nontraditional students attending colleges and universities. The \$57 million funds approximately 22,500 Cal Grant awards.
- Fully funds the Cal Grant "entitlement" program, providing grants to all financially-needy and academically-eligible recent high school graduates and community college transfer students.
- Utilizes \$24 million in Student Loan Operating Funds to offset Cal Grant local assistance funding in order to obtain a like amount of GF savings.

## TRANSPORTATION

- Includes full funding (\$1.5 billion) for Proposition 42, including \$83 million in required repayments.
- Provides about \$3.6 billion in Proposition 1B bonds, including: (a) \$1.5 billion for the Corridor Mobility Improvement Account (CMIA); (b) \$996 million for the State Transportation Improvement Program (STIP); (c) \$417 million for the Trade Corridors Improvement Fund; (d) \$214 million for the State Highway Protection and Preservation Program (SHOPP); (e) \$200 million for the State and Local Partnership (SLP) program; and (f) \$103 million for State Route 99.
- Includes, as part of an economic stimulus package, \$250 million in Proposition 1B funding for local streets and roads; of this amount \$187 million is directed to cities and \$63 million is directed to counties.
- Provides General Fund relief of approximately \$1.7 billion from “spillover” and other transit funds. General Fund relief is as follows: (a) \$857 million to reimburse the GF for transportation related G.O. bond debt; (b) \$589 million to reimburse the GF for Home-to-School transit; (c) \$138 million for regional center transportation budgeted in the Department of Developmental Services; and (d) \$83 million to reimburse the GF for the Proposition 42 loan repayment.
- Provides \$406 million for transit operations, which is \$100 million above the level of funding provided in 2007-08. *[The Governor vetoed the additional \$100 million.]*
- Shifts a portion of Capital Outlay Support (COS) engineering workload from contractors to state staff for a savings of \$10 million. The final allocation of COS workload is 90 percent state staff and 10 percent contractors.

## HEALTH

- Rejected the Administration’s proposal to restore Quarterly Status Reporting for parents for a reduction of \$7.6 million (\$3.8 million General Fund). Instead, the existing Semi-Annual Reporting process for parents was maintained.
- Modified the Administration’s proposal to implement Quarterly Status Reporting for children and instead, adopted a Semi-Annual Reporting process for a reduction

of \$51.2 million (\$25.6 million). Children enrolled in Medi-Cal presently have an annual renewal process. It is the intent of the Legislature for the DHCS to have children on the same renewal pattern as their parents when applicable.

- Modified the Administration's proposal to stop paying the federal Medicare Part B Premium for individuals enrolled in Medicare and in Medi-Cal with a "share-of-cost" and do not meet their Medi-Cal "share-of-cost" every month. Under the Legislature's action, the state will continue to pay the Part B Premium of individuals with a "share-of-cost" at \$500 dollars and below. A reduction of \$48.4 million (General Fund) would be achieved from this action, which is \$5.4 million (General Fund) less than the Administration's.
- Rejected the Administration's proposal to roll back Medi-Cal eligibility for working families enrolled in the 1931 (b) category of eligibility. This proposal by the Administration would have denied coverage to over 433,000 people on an annual basis. The Administration had assumed savings of \$62.3 million (\$31.1 million General Fund) from their proposal.
- Rejected the Administration's proposal to restrict Medi-Cal services for "Newly Qualified Immigrants" (about 73,400 people) who have been in the country for less than five years to "restricted-scope" services, versus the full-scope services as presently provided under Medi-Cal. Also rejected the Administration's proposal to restrict Medi-Cal services for individuals "Permanently Residing Under the Color of Law" (PRUCOL) and "Amnesty Alien" individuals. These individuals (about 17,200) also would have been placed on a "month-to-month" eligibility cycle under the Administration's proposal.
- Rejected the Administration's proposal to establish a "month-to-month" Medi-Cal eligibility for immigrants on "restricted-scope" Medi-Cal enrollment.
- Restores most of the 10 percent rate reduction to Medi-Cal Fee-for-Service providers, including physicians, medical transportation, home health, dental, outpatient services and other medical services, effective as of March 1, 2009. Assembly Bill 3X 5, Statutes of 2008, enacted a 10 percent reduction effective as of July 1, 2008.
- Provides a 5 percent restoration to the rates paid to pharmacy providers under the Medi-Cal Program, effective March 1, 2009.
- Provides a 5 percent restoration to the rates paid to certain Long-Term Care providers, including: (1) Level A nursing homes, (2) Distinct Part Nursing

Homes, (3) Distinct Part Subacute, (4) Distinct Part Pediatric Subacute, and (5) Adult Day Health Care under the Medi-Cal Program, effective March 1, 2009.

- Provides an increase of \$221 million GF for certain payments related to litigation regarding Medi-Cal rates.
- Adopts modified trailer bill language regarding the rate methodology used to reimburse nursing homes that pay a quality assurance fee (as contained in AB 1629, Statutes of 2004). This language provides for a two-year extension of the rate methodology, capitates the maximum annual increase to 5 percent for the next two years, establishes a comprehensive stakeholder group process to craft quality assurance measures, and requires the DHCS to report to the Legislature regarding recommendations forthcoming from the stakeholder group process.
- Restores most of the 10 percent rate reduction in the California Children Services (CCS) Program, including specialty care physicians, effective March 1, 2009.
- Partially restores the Governor's proposal to reduce by 10 percent the amount of state support for Medical Therapy Services provided under the CCS Program by providing \$2.4 million in federal Title V Maternal and Child Health Funds to support the program. Therefore, a net reduction of \$1.4 million (General Fund) was made in lieu of the Governor's \$3.1 million.
- Provides funding for Medi-Cal Managed Care plans to account for: (1) increases in the number of enrollees; (2) adjustments to reflect updated data as calculated according to existing statute (i.e., Mercer calculations); and (3) corresponding actuarially-based rate adjustments due to Fee-For-Service and related Medi-Cal Program changes.
- Restores most of the 10 percent rate reduction in the Child Health and Disability Prevention Program (CHDP), effective March 1, 2009.
- Restores most of the 10 percent rate reduction in the Genetically Handicapped Persons Program (GHPP), effective March 1, 2009.
- Continues the Governor's 10 percent rate reduction, as contained in Assembly Bill 3X 5, Statutes of 2008, for Non-Contract Hospitals participating in the Medi-Cal Program and adopts modified trailer bill legislation to encourage hospitals to participate in the Selective Provider Contract Program operated by the California

Medical Assistance Commission (CMAC). Exempts small and rural hospitals from this reduction.

- Utilizes \$9.15 million (one-time only) from supplemental funds normally transferred to the Distressed Hospital Fund to pay back the federal government due to an impermissible Intergovernmental Transfer made by Fresno County and Fresno Community Medical Center. Adopted conforming Budget Bill Language and trailer bill language for this action. This action is used in lieu of General Fund support.
- Utilizes \$13.6 million (one-time only) from supplemental funds normally transferred to the Private Hospital Fund to offset General Fund support within the Medi-Cal Program. Adopted conforming Budget Bill Language and trailer bill language for this action.
- Reduces by \$53.4 million GF the amount allocated to counties for Medi-Cal program eligibility processing.
- Adopts trailer bill language to suspend the state's penalty on counties for not meeting certain performance standards when the cost-of-doing-business is not provided.
- Adopts modified trailer bill language that limits the amount health plans participating in the Medi-Cal Managed Care Program must pay hospitals that are out of the plan's network for emergency room services provided to Medi-Cal plan enrollees (i.e., the federal Rogers Amendment requirement). Exempts small and rural hospitals, as well as certain others.
- Adopts trailer bill language to require the DHCS to provide County Organized Healthcare (COHS) health plans participating in Medi-Cal Managed Care with a preliminary rate by no later than June 30th of each year.
- Adopts the Governor's 10 percent reduction in case management for the Child Health and Disability Prevention (CHDP) Program.
- Fully funds the Department of Public Health's Biomonitoring Program by backfilling General Fund support using Toxic Substances Control Account funds.

- Reduces by \$1.3 million (General Fund) to delay the implementation of Senate Bill 739, Statutes of 2006, regarding community-based infections.
- Adopts the Governor's May Revision proposal to continue the Medi-Cal Pharmacy Pilot Project for HIV/AIDS until June 30, 2009. This action includes trailer bill language to limit the payment of the enhanced \$9.50 dispensing fee to HIV/AIDS drugs and drugs used for treatment of opportunistic infections only.
- Adopts trailer bill language to require the Department of Public Health to provide the Legislature on January 10th and at the May Revision with a budget estimate for the AIDS Drug Assistance Program (ADAP). The ADAP was fully funded using drug rebate funds to backfill for \$7 million in General Fund support.
- Modifies the California Discount Prescription Drug Program to make it self-financing in future years. *[The Governor vetoed all funding for this program.]*
- Restores the \$277,000 (General Fund) reduction proposed by the Governor to the Prostate Cancer Treatment Program. *[The Governor vetoed this funding.]*
- Maintains the Governor's 10 percent reduction of: (1) \$692,000 (General Fund) to the Alzheimer's Disease Research Centers and (2) \$326,000 (General Fund) to the Dental Disease Program.
- Eliminates \$1.2 million (General Fund) from the Health Screens for Adults Program.
- Reduces by \$1.2 million (General Fund) the amount provided to Local Health Jurisdictions for local infrastructure for immunization assistance. These entities receive about \$29 million in federal fund support.
- Reduces, by 10 percent, the Male Involvement Program and the Information and Education Projects for teens as proposed by the Governor. *[The Governor vetoed all funding for this program.]*
- Provides one-time funding of \$825,000 (federal Title V Maternal and Child Health Funds) for the Maternal Mortality Project.

- Fully funds the Adolescent Family Life Program by using federal Title V Maternal and Child Health Funds to backfill for General Fund support to obtain savings.
- Reduces the Poison Control System by \$1 million (General Fund) and adopted Budget Bill Language to have the Emergency Medical Services Authority provide assistance to the system to obtain funding from non-General Fund sources, including the California Children and Families Commission and foundations.
- Adopts the Governor's proposal to obtain a loan to the General Fund from the Occupational Lead Poisoning Prevention Account in the amount of \$1.1 million.
- Adopts the Governor's proposal to obtain a loan to the General Fund from the Drinking Water Operator Certification Special Account in the amount of \$1.6 million.
- Reflects the Governor's decision to rescind his May Revision proposal to obtain a loan to the General Fund from the Drinking Water Treatment and Research Fund in the amount of \$8.5 million.
- Modifies the Governor's proposal to increase the premiums low-income families pay to enroll their children in the Healthy Families Program. Specifically, families from 151 percent to 200 percent of poverty will have a three dollar increase in their monthly premium payments or \$12 per child, with a family maximum of \$36 per family. Families above 200 percent of poverty will have a two dollar increase in their monthly premium payments or \$17 per child, with a family maximum of \$51 per family.
- Reduces \$6 million GF associated with Medi-Cal post-stabilization for managed care of non-contract hospitals, this is scheduled to sunset in two years.

## **MENTAL HEALTH**

- Deletes \$5.1 million (General Fund) for Department of Mental Health (DMH) staff and administrative costs associated with further implementation of certain federal requirements. These funds were not provided since the DMH has funds available for this purpose due to salary savings from vacant positions.

- Enacts a performance improvement project for the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) program for a savings of over \$12 million GF.
- Includes budget language specifying legislative intent for counties to consider ways to provide services similar to those established pursuant to the Mentally Ill Offender Crime Reduction Grant program using Proposition 63 funds.
- Adopts trailer bill language to clarify reimbursements made for mental health services provided to children residing in out-of-state facilities.

### **DEVELOPMENTAL SERVICES**

- Adopts the Governor's 10 percent reduction of \$512,000 (General Fund) for client's rights advocacy.
- Continues the Governor's cost containment measures as enacted in the Special Session.
- Adopts trailer bill language to review cost containment measures regarding services provided through the Regional Centers.
- Reduces \$13 million General Fund associated with family cost participation, purchase of service review / parental responsibility, and savings assumed from Proposition 10 funding availability for the Early Start program.

### **JUDICIAL / PUBLIC SAFETY**

- Provides \$107 million General Fund for the Citizen's Option for Public Safety (COPS) Program that supports local law enforcement.
- Provides \$107 million General Fund for the Juvenile Justice Crime Prevention Act program that supports local probation departments.
- Includes \$181 million General Fund for local probation departments to support juvenile programs.
- Maintains \$31.5 million General Fund for booking fees.



- Accounts for restoration of small and rural sheriff's subvention (\$16.7 million General Fund). However, activating statute is contained in the public safety trailer bill.
- Provides \$32 million GF in lieu of increased reimbursements to support the Department of Justice (DOJ) forensic labs.
- Eliminates funding for grants to local law enforcement for mentally ill offenders for a \$40 million General Fund savings. However, counties may wish to fund this program with available Proposition 63 funds.
- Provides no General Fund augmentation to the Judicial Branch in the budget year requiring the Judicial Branch to use one-time reserves to support its operations in the budget year.
- Delays implementation of a new trial court program enacted in 2006 to reduce fraud and abuse of elderly and dependent of adults to save \$17.4 million General Fund.
- Reduces funding for Department of Justice gang suppression and methamphetamine enforcement activities that assists local law enforcement to save \$10 million General Fund.
- Eliminates over 100 vacant positions at the Department of Justice to save \$11 million General Fund.
- Eliminates the Crime and Violence Prevention Center at the Department of Justice for \$5 million in General Fund savings.

## **NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION**

- Provides \$126.5 million for emergency levee evaluations and repairs. Also provides over \$263 million for construction of levees and other flood control projects.
- Provides \$305 million for FloodSAFE, a long-term strategic initiative developed to reduce flood risk in California.

- Provides \$50 million to the Air Resources Board from AB 118 funding for a program to assist low-income short-haul truckers in meeting new air quality standards.
- Provides \$75 million to the Energy Commission to begin work on AB 118 implementation, such as grants and other funding mechanisms to develop and deploy innovative technologies that transform California's fuel and vehicle types to help attain the state's alternative fuels and climate change policies.
- Approves the Governor's proposal for a \$32 million loan from the Beverage Container Recycling Fund to pay for AB 32 implementation activities. This option leaves future funding for the program uncertain.
- Provides signature authority to the Attorney General (AG) for the Electricity Oversight Board's (EOB) outstanding legal cases. This authority will allow the AG to collect over \$2 billion owed to the state from the 2001 electricity crisis. These funds could have been lost to the state due to the Governor's administrative elimination of the EOB.
- Increases park fees by \$1.5 million in order to keep all parks open and retain existing levels of service.

## **GENERAL GOVERNMENT / STATE ADMINISTRATION**

- Provides for the modernization and securitization of the California State Lottery (lottery) for debt relief purposes beginning in the 2009-10 fiscal year. Requires voter approval on a statewide ballot, and would include the following key points:
  - Generates an estimated \$6 billion in 2009-10 and \$5 billion in 2010-11, but is not expected to generate revenues or provide any budget relief in 2008-09.
  - Deposits proceeds from the securitization into a new Debt Retirement Fund, and could be used for repaying budgetary borrowing (like transportation, education, and local government debts), and bonded indebtedness.
  - Provides only modest changes to the lottery, such as increasing prize payouts, but proposes no new games or technology.
  - Protects education from experiencing any financial loss.

- Provides a total of \$19.5 million for the California Multi-jurisdictional Methamphetamine Enforcement Team program, to be allocated on a competitive grant basis. *[The Governor vetoed the competitive grant budget bill language.]*
- Suspends half of the annual \$5 million GF appropriation for the Cesar Chavez Day of Service and Learning program.
- Fully reimburses counties for costs associated with the early presidential primary of February 2008.
- Maintains full funding for oversight activities of the Fair Political Practices Commission. *[The Governor made veto reductions equivalent to 10 percent of the FPPC GF support.]*
- Shifts \$350 million or five percent, whichever is larger, in Redevelopment Agency (RDA) property tax funds to education in order to generate General Fund savings of the same amount.
- Establishes an improved recovery and compliance process related to the pass-through of property tax dollars from RDAs to education agencies. A recent State Controller's study revealed underpayment by some RDAs. Recovery of approximately \$98 million in cumulative RDA underpayments will result in state GF savings of the same amount.
- Adopts a comprehensive package of modifications for the California State Teachers Retirement System (CalSTRS), which collectively improve benefits for retired teachers and achieve savings for the state. Recognizes savings of \$66 million GF in the cost of providing purchasing-power protection to retired teachers. Increases the inflation protection level from 80 percent to 85 percent of first-year retirement salary. Schedules interest payment to CalSTRS related to a legal judgment – starting with a \$57 million GF payment in 2009-10.
- Defers payment of \$75 million GF to local governments for old mandate claims (pre-July 2004 claims).
- Maintains full funding for the low-income senior citizen property tax relief programs -- \$254 million GF is budgeted for these programs.

- Utilizes \$7.2 million of federal funds under the Workforce Investment Act for parolee services providing an equivalent level of General Fund savings. Additionally, provides \$2 million for green technology/green collar job training.
- Restores the 10 percent reduction to County Veterans Services Offices in order to assist veterans in accessing their full federal benefits.

## REVENUE SOLUTIONS

- Establishes a new 20-percent penalty for corporate taxpayers that understate their taxes by \$1 million or more. This penalty is expected to generate about \$1.4 billion GF accrued to 2007-08. Currently, corporations that significantly underreport their taxes are required to pay 10 percent interest for their underpayment. Establishing penalties of 20 percent for all open tax years for corporations that understate their taxes by \$1 million or more will increase revenues in the short term, as companies will pay taxes due to the state for prior years, and reduce the rate of underreporting and increase tax compliance going forward. Companies would have the opportunity in 2009 to file amended tax returns and make payments to avoid the new penalty.
- Accelerates estimated quarterly payments. Under current law, certain taxpayers make four quarterly payments of 25 percent of their estimated liability. This proposal would increase the first two estimated payments required to 30 percent and reduce the last two payments to 20 percent – generating approximately \$1.3 billion in 2008-09.
- Eliminates “Safe Harbor” for taxpayers with incomes over \$1 million. Under current law, taxpayers are only required to make estimated payments and/or withholding up to 110 percent of prior year tax liability. If liability exceeds 110 percent of the prior year tax liability, the taxpayer can pay the difference by April 15 of the following tax year without penalty. This proposal would eliminate the “safe harbor” for taxpayers with incomes over \$1 million, such that they will have to pay their full estimated tax liability in quarterly payments. This is anticipated to generate \$900 million in 2008-09.
- Suspends the Net Operating Loss (NOL) deduction for two years (\$1.1 billion) and limits various incentive credits for two years (adds approximately \$900 million). Businesses with incomes under \$500,000 are excluded. NOL is brought into greater conformity with federal law by allowing 20 year carry forward and 2

year carry back. Incentive credits are broadened to allow use of credits by affiliated corporations.

- Requires payment of the estimated Limited Liability Company (LLC) payment by June 15 of the current taxable year, instead of April 15 of the following year. This change would result in a one-time GF benefit of \$360 million.
- Adopts a modified administration proposal for accrual of revenues – providing \$1.8 billion in GF revenues. Of this amount, \$416 million is accrued to 2007-08 and \$1.4 billion is accrued to 2008-09.

## **BUDGET REFORM**

*(Senate Constitutional Amendment 13 – requires voter approval)*

- Increases the size of the Budget Stabilization Fund (BSF). Increases the target size of the Budget Stabilization Fund (BSF) from five percent of General Fund revenues to 12.5 percent of General Fund revenues.
- Limits use of the BSF to bad revenue years. Commencing in 2010-11, prohibits transfers from the BSF to the GF, unless revenue is insufficient to meet the current services level of funding. Specifically, revenues, transfers, and prior-year balances, must be below that required to meet prior-year expenditures adjusted for population and cost-of-living, as specified. The maximum allowable BSF transfer would be that necessary to fund the amount associated as a result of the change in population and cost-of-living. Furthermore, would require the Legislature to pass a statute authorizing a transfer from the BSF to the GF. If these conditions are met, allows the Governor to also suspend the transfer of three percent of GF revenues to the BSF via executive order by September 30 of a fiscal year.
- Allows use of the BSF for emergencies. Allows BSF funds to be used to respond to an emergency declared by the Governor and transferred by statute.
- Adds "April Surprises" revenue to the BSF. Requires that any unanticipated revenue growth from the time of the January Governor's budget to the May Revision of the Governor's Budget be directed to first meeting the Proposition 98 constitutional obligations and that the remainder be transferred to the BSF. Unanticipated revenue is defined as that exceeding 105 percent of the January estimate. If the BSF is already at 12.5 percent of General Fund revenue, the revenue is instead directed to early retirement of budgetary obligations and one-time expenditures as specified.

- Requires that the annual Governor's Budget identify an estimate of one-time revenues. The Constitution currently requires the Governor to annually submit a proposed budget, including estimated revenues, by January 10. This constitutional amendment would require identification of the amount of revenue that is estimated to be one-time.
- Allows use of BSF for cash flow purposes. Specifies that the BSF may be loaned and repaid within a fiscal year to meet General Fund cash requirements.

(Statutory – implementation contingent upon voter passage of constitutional amendment, as specified.)

- Authorizes the Director of [the Department of] Finance, in consultation with agency secretaries and other cabinet members, to make mid-year support budget (no reductions to local assistance items of appropriation) reductions, not to exceed 7 percent, in General Fund (GF) items of appropriation for state operations and capital outlay if the Director determines either of the following:
  - a. GF total available resources for the fiscal year will decline substantially below the estimate of total GF resources available assumed in the Budget Act; or
  - b. GF expenditures will increase substantially above the estimate of GF total resources available.
- Additionally, authorizes the Director to suspend for up to 120 days any cost-of-living adjustment (COLA) or rate increase funded in the Budget Act, or, if the Governor declares a fiscal emergency, to suspend such an increase until the Legislature passes and sends to the Governor a bill or bills to address the fiscal emergency.
- DOF must provide 30-day notification of reductions to the Joint Legislative Budget Committee.
- Among others, exempts from reduction appropriations for the Legislature and Constitutional officers and K-12 revenue limit COLA. Limits reductions to no more than 7 percent in any single state operations or capital outlay items of appropriation, and becomes operative only upon submission and approval by the voters of a constitutional amendment in the November 4, 2008, statewide general election.

## GENERAL FUND SUMMARY

The following table is a summary of the General Fund for both the 2007-08 and 2008-09 fiscal years.

### General Fund Summary Current Year and Budget Year (in millions)

		<b>Adjusted 2007-08 Budget</b>		<b>2008 Budget Act (AB 1781 / AB 88)</b>
<b>Prior-year balance</b>		\$4,305		\$3,399
Revenues and Transfers		\$103,027		\$101,991
<b>Total Resources Available</b>		<b>\$107,332</b>		<b>\$105,990</b>
<b>Total Expenditures</b>		<b>\$103,333</b>		<b>\$103,401</b>
<b>Fund Balance</b>		<b>\$3,999</b>		<b>\$2,589</b>
<b>Budget Reserve:</b>				
Reserve for Liquidation of Encumbrances		(\$885)		(\$885)
Special Fund for Economic Uncertainties (SFEU)		\$3,113		\$1,703
Budget Stabilization Account		--		--
<b>TOTAL AVAILABLE RESERVE</b>		<b>\$3,113</b>		<b>\$1,703</b>

Source: Department of Finance

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**BUDGET and TRAILER BILLS**

<b>Bill Number</b>	<b>Chapter Number</b>	<b>Topic</b>	<b>Senate Vote</b>	<b>Assembly Vote</b>
AB 1781	Ch 268	Budget Act of 2008 (adoption of Conference Report)	29-11	61-11
AB 88	Ch 269	Budget Act of 2008 (modifications to AB 1781)	28-12	59-17
AB 10	Ch 753	Employment: overtime compensation (trailer bill)	28-8	54-19
AB 158	Ch 754	Tribal gaming: local agencies (trailer bill)	39-0	76-0
AB 186	Ch 755	Crime prevention (trailer bill)	40-0	75-0
AB 268	Ch 756	Transportation (trailer bill)	29-10	59-17
AB 519	Ch 757	Education finance (trailer bill)	30-9	68-7
AB 1183	Ch 758	Health (trailer bill)	36-3	55-21
AB 1279	Ch 759	Human services (trailer bill)	33-6	56-20
AB 1338	Ch 760	Public resources (trailer bill)	31-9	62-15
AB 1389	Ch 751	State government (trailer bill)	28-12	55-22
AB 1452	Ch 763	Taxation (trailer bill)	27-13	55-21
AB 1526	Vetoed	Before and after school programs (trailer bill)	30-7	68-5
AB 1654	Enrolled	California State Lottery (trailer bill)	28-9	65-11
AB 1741	Enrolled	California State Lottery (trailer bill)	28-9	64-12
AB 1805	Vetoed	Seriously emotionally disturbed children: out-of-home placement (trailer bill)	40-0	67-7
AB 2026	Ch 761	State property (trailer bill)	29-9	68-3
AB 2246	Ch 762	Charter schools: joint powers agreement: funding (trailer bill)	27-11	69-0
AB 2784	Vetoed	Medi-Cal: hospitals: reimbursements (trailer bill)	40-0	70-0
ABX3 36	Vetoed	Income and corporation taxes (trailer bill)	21-18	43-29
SBx1 28	Ch 1	Taxation (trailer bill)	22-14	43-30
SCA 12	Res Ch 143	California State Lottery (Resolution - Constitutional Amendment)	27-9	76-0
SCA 13	Res Ch 144	State finance (Resolution - Constitutional Amendment)	39-0	64-6
SCA 30	Res Ch 167	State finance (Resolution - Constitutional Amendment)	30-0	68-2

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**Subcommittee No. 1 – Education**

6110 Department of Education  
6120 California State Library  
6420 California Postsecondary  
Education Commission  
6440 University of California

6610 California State University  
6600 Hastings College of the Law  
6870 California Community Colleges  
7980 Student Aid Commission

**Subcommittee No. 2 – Natural Resources, Environmental  
Protection, Energy & Utilities, and Food & Agriculture**

0540	Secretary for Resources	3830	San Joaquin Conservancy
0555	Secretary for Environmental Protection	3835	Baldwin Hills Conservancy
3110	Special Resources Programs	3840	Delta Protection Commission
3125	California Tahoe Conservancy	3845	San Diego River Conservancy
3340	California Conservation Corps	3850	Coachella Valley Mountains Conservancy
3360	California Energy Commission	3855	Sierra Nevada Conservancy
3460	Colorado River Board	3860	Department of Water Resources
3480	Department of Conservation	3900	State Air Resources Board
3540	Department of Forestry and Fire Protection	3910	California Integrated Waste Management Board
3560	State Lands Commission	3930	Department of Pesticide Regulation
3600	Department of Fish and Game	3940	State Water Resources Control Board
3640	Wildlife Conservation Board	3960	Department of Toxic Substances Control
3680	Department of Boating and Waterways	3980	Office of Environmental Health Hazard Assessment
3720	California Coastal Commission	7300	Agricultural Labor Relations Board
3760	State Coastal Conservancy	8570	Department of Food and Agriculture
3780	Native American Heritage Commission	8660	Public Utilities Commission
3790	Department of Parks and Recreation	8770	Electricity Oversight Board
3810	Santa Monica Mountains Conservancy		
3820	San Francisco Bay Conservation and Development Commission		
3825	San Gabriel & Lower Los Angeles Rivers and Mountains Conservancy		

**Subcommittee No. 3 – Health, Human Services,  
Labor and Veterans Affairs**

0530	Secretary of Health and Human Services	4300	Department of Developmental Services
0559	Labor and Workforce Development Agency	4440	Department of Mental Health
4120	Emergency Medical Services Authority	4700	Department of Community Services and Development
4140	Office of Statewide Health Planning and Development	5160	Department of Rehabilitation
4170	Department of Aging	5170	State Independent Living Council
4180	Commission on Aging	5175	Department of Child Support Services
4185	California Senior Legislature	5180	Department of Social Services
4200	Department of Alcohol and Drug Programs	7100	Employment Development Department
4260	Department of Health Care Services	7350	Department of Industrial Relations
4265	Department of Public Health	8955	Department of Veterans Affairs and Veterans Homes of California
4270	California Medical Assistance Commission		
4280	Managed Risk Medical Insurance Board		

## Subcommittee No. 4 – Transportation, State Administration, General Government, Judiciary, Public Safety and Criminal Justice

0250	Judicial Branch	2720	California Highway Patrol
0280	Commission on Judicial Performance	2740	Department of Motor Vehicles
0390	Contributions to Judges' Retirement Fund	5225	Department of Corrections & Rehabilitation
0502	Office of the Chief Information Officer	8120	Commission on Peace Officer Standards and Training (POST)
0510	Secretary for State and Consumer Services	8140	State Public Defender
0520	Secretary for Business, Transportation, and Housing	8180	Payments to Counties for the Costs of Homicide Trials
0552	Office of the Inspector General	8260	California Arts Council
0650	Office of Planning and Research	8320	Public Employee Relations Board
0690	Office of Emergency Services	8380	Department of Personnel Administration
0820	Department of Justice	8500	Board of Chiropractic Examiners
0840	State Controller	8550	California Horse Racing Board
0845	Department of Insurance	8620	Fair Political Practices Commission
0850	State Lottery Commission	8640	Political Reform Act of 1974
0855	Gambling Control Commission	8780	Milton Marks "Little Hoover" Commission
0860	Board of Equalization	8820	Commission on the Status of Women
0890	Secretary of State	8855	Bureau of State Audits
0950	State Treasurer's Office	8860	Department of Finance
1100	California Science Center	8885	Commission on State Mandates
1110-	Department of Consumer Affairs	8910	Office of Administrative Law
1111		8940	Military Department
1690	Alfred E. Alquist Seismic Safety Commission	9100	Tax Relief
1700	Department of Fair Employment & Housing	9210	Local Government Financing
1705	Fair Employment and Housing Commission	9350	Shared Revenues
1730	Franchise Tax Board	9600	Debt Service for General Obligation Bonds
1760	Department of General Services	9620	Interest Payments on General Fund Loans
1870	Victim Compensation & Government Claims Board	9618	Economic Recovery Financing Committee
1880	State Personnel Board	9650	Support for Health and Dental Benefits for Annuitants
1900	Public Employees' Retirement System	9800	Augmentation for Employee Compensation
1920	State Teachers' Retirement System	9840	Augmentation for Contingencies and Emergencies
1955	Department of Technology Services		
2100	Department of Alcoholic Beverage Control	<b>Control Sections:</b>	
2150	Department of Financial Institutions	3.60	Contributions to Public Employee Retirement Benefits
2180	Department of Corporations	4.44	Budget Reduction
2240	Department of Housing and Community Development	4.70	Architecture Revolving Fund Deficit Recovery
2260	California Housing Financing Agency	15.25	Appropriation Adjustments to Reflect Technology Service Rate Changes
2310	Office of Real Estate Appraisers	35.20	Accrual Accounting
2320	Department of Real Estate	35.50	Budget Stabilization Account Transfer to GF
2400	Department of Managed Health Care	35.80	Cash Management
2600	California Transportation Commission		
2640	Special Transportation Programs		
2660	Department of Transportation		
2665	High Speed Rail Authority		
2770	Office of Traffic Safety		